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Office Memorandum • UNITED STATES GOVERNMENT

TO : S/P - Mr. Watts

FROM : CA - Mr. Barnett

SUBJECT: Report on Formosa

DATE: October 15, 1951

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DEPARTMENT OF STATE A/CDC/MR

REVIEWED BY *JR* DATE *10 AUG 1961*

PORTIONS DENIED AS INDICATED

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Formosa

After my session with S/P on October 1 I wrote up for Mr. Rusk the attached version of the ground I had tried to cover. He has suggested that I make available a copy for Mr. Nitze to retain.

Attachment:

Memorandum to Mr. Rusk,
October 3, 1951

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S/P. Mr. Harte

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FE - Mr. Rusk

October 3, 1951

CA - Mr. Barnett

Report on Formosa

On October 1, I met with the Policy Planning Staff to discuss Formosa. My own remarks on this subject ran to some 45 minutes. There followed a question and answer period lasting about one and a half hours. I am setting down for you — without making an effort to achieve literary polish or to convert a speech into a scholarly treatise — a somewhat fattened version of the outline from which I talked.

* * * *

The Japanese made Formosa a laboratory experiment in their form of colonialism. As such, it was highly successful and there exist exhaustive facts and figures to document every phase of the Japanese record. The Chinese were, during my stay in Formosa, completing a number of studies of the Japanese archives, trying to draw lessons from them and, unavoidably, experiencing some shame in the deterioration which has occurred in Formosa since 1945.

The Chinese are very short of exact facts and figures. This was brought to my attention, soon after my arrival, by the Formosa correspondent for the Chicago Daily News who asserted that the population of Formosa is ten million or more and that the Chinese (and ECA) working estimate of eight million is a political figure designed to help obfuscate the drain on Formosan resources brought about by the Mainland military and civilian refugee population. I got no support from any official source for that ten million figure; officials, however, differ widely amongst themselves in their guesses as to what the population of Formosa actually is. The inexactness of statistics on population is characteristic of the inexactness of statistics on almost all aspects of the economic, military, and social situation on Formosa.

It is with considerable reserve, therefore, that one accepts as fact what one reads and hears on Formosa. Nevertheless, I came away from Formosa with several convictions based upon what I heard about psychological and other imponderable factors at work on Formosa, as well as upon what I heard, read, or could observe first hand about objective factors:

First, if the United States Seventh Fleet mission in the Formosa Straits was terminated, the ICA aid program cut off, and the military training and equipment program of the MAAG stopped, Formosa would be in the hands of the Chinese Communists in possibly so short a time as six months. This could occur without a battle being fought and it might be manipulated — based on the Ribbentrop-Molotov precedent of the political affinity of exact opposites —

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by the Generalissimo's own son, Chiang Ching-kuo, the Director of the Political Department of the Ministry of National Defense.

Second, the strategic benefits to the United States of the MAAG operation on Formosa is apt to be far more significant politically than militarily. In view of the magnitude and depth of political and military developments on the China mainland, it appears improbable that US military assistance to Formosa -- almost regardless of its volume -- will create a Chinese military establishment which, as a self-contained combat force, would be capable of either defending itself against an all-out Chinese Communist attack or of establishing a military bridgehead on the Mainland for secondary operations which would result in detaching important parts of China from the hegemony of Peking. Massive US tactical and logistical assistance should be assumed to be necessary for the accomplishment of either of these military objectives. In contrast to the limited expectations we should have for the military effort, per se, the MAAG operation can bring about very important political and economic results.

Third, I can see no long-term future for Formosa except as a part of China-- a China, this means, of which Formosa could be a part without such a coalescence doing harm to US interest and objectives in Asia. This opinion is shared, I believe, by the Chinese officials on Formosa who hold the "optimistic" view that World War III will produce this result. In Hong Kong a different view prevails. It is that World War III would bring such a catastrophe to Asia as a whole that the Chinese in Hong Kong -- who, detesting the Communists, refuse to return to the Mainland, and feel much the same about Formosa -- would not much care what became of Formosa. Their hope is that a formula can be worked out for the achievement of an independent, stable, and secure Formosa which would accommodate itself to its neighbors in the Far East, including Communist China. When they are asked what they think would be Chiang Kai-shek's attitude towards Formosa were he in Peking and Mao Tse-tung installed in Taipei they admit that Chiang would insist upon the recovery of the Island for China. When pressed, therefore, they too find it difficult to envisage a Formosa dissociated permanently from the China mainland, whether it be under Communist or non-Communist control.

Fourth, I am convinced that it is clearly in the United States interest to keep Formosa out of Chinese Communist control partly for what that act of mercy means to the people on Formosa and partly for the value of its ports and air fields to any possible future US military effort in the Pacific, but, far more important, for what it can mean as a disturbing and psychologically undermining factor for Russian-dominated Communist Chinese authority on the Mainland. I believe, further, that we should plan to deny Formosa to Communist China primarily by projecting on a publicly announced and "permanent basis" the present mission of the Seventh Fleet and by including in our military plans for Okinawa and Japan the use of US forces there to cope with possible Communist attack on Formosa based upon the China mainland. As a short-term corollary for this longer-term commitment and plan, I believe that we should give to General Chase and the MAAG all the assistance that they are able to administer efficiently for 1952, provided Minister Rankin, General Chase, and Mr. Moyer

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are able to secure from Chiang Kai-shek a commitment that MAAG should exercise veto authority over the size and character of the budget for the military establishment on Formosa and should exercise a similar veto authority over all military expenditures, whether the resources drawn upon are of Chinese or United States origin. The State Department, the ECA, and the Defense Department should, in my opinion, give our representatives in Taipei the fullest support, whether it be diplomatic, by the acceleration of movement of hardware, by the provision of highly trained personnel for specific tasks, by the adequate staffing of MAAG field operations, or otherwise, to achieve basic reforms in the military sector of Formosan society. These reforms should be brought about on the working hypothesis that there should be final Chinese civilian responsibility and authority in the administration of good government and sound finances on Formosa. This does not now exist. It is a prerequisite for the accomplishment of our military, as well as all the other important objectives which we seek on Formosa.

It is only through the leverage of military assistance, however, that either the military or other economic and social reforms needed on Formosa can be accomplished. If achieved, they can set free for constructive effort the remarkably fertile and expert civilian talents which exist there and which have the potential for providing Formosa with better government than has existed in modern China.

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To convey some feeling for the police-state atmosphere which, unfortunately, exists on Formosa, I need only give a brief account of two conversations I had with [REDACTED]

[REDACTED] and for over ten years an intimate friend of mine.

I saw [REDACTED] first in his office. He said that the Communist threat was such that liberal forces in the Free World no longer had a role to play and Communist methods used by the Communists could only be frustrated by "Communist" methods used by non-Communists. On Formosa the Generalissimo towered above all other public figures and was genuinely a symbol for the Chinese people of unbending anti-Communism. Chiang Ching-kuo, the Generalissimo's son, by the exercise of his police techniques and particularly by his seizure and execution of some one thousand subversives last year had spared Formosa from Communist infiltration and conquest. The United States has no alternative but to continue its present aid program and along present lines. It is achieving considerable success.

A week passed, and [REDACTED] called upon me at the Friends of China Club to make arrangements for a private conversation in my room there. We made a date for the following day -- a Sunday morning. Without the slightest reference

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to our previous conversation [redacted] expressed the following views: China requires statesmen today who, in a manner of speaking, understand calculus. By this standard, the Generalissimo knows geometry; the henchmen who surround him barely know arithmetic. A police state exists in which independent thought and activity are apt to be called subversive and offenders promptly shot without trial. The outlook for progress of any sort on Formosa is almost hopeless unless steps are taken to bring Chiang and his army under control.

The contrast in the candor of [redacted] talking from his desk in the crowded ECA building and talking in the privacy of my own room, speaks for itself.

[redacted] s estimate of the Formosa situation differed very little from that given me more fully by General [redacted] on the night of September 6 when I was his guest. [redacted] General [redacted] called me to his private compartment and for two hours regaled me with the following line of argument: The Generalissimo has had a long history of pro-Russian and pro-Nazi sympathies. He failed to commit himself fully to the democratic world until after the Chinese Communist occupation of Peking. Yalta was not a US sellout of China; the Generalissimo would have concluded the Sino-Soviet treaty regardless of the Yalta decisions. Internally, the Generalissimo's authority is based upon the theory of divide and rule. He uses Communist methods of creating fear and suspicion. His methods and outlook differ from the Communists only in the corruption and defeatism of his administration. In Taipei people say: "Don't open your mouth. Don't wet your ink. Don't associate. For if you do the police will find you." This atmosphere, he said, produces a devastating effect upon the Chinese army as well as upon all other sectors of Formosa's political life. He said that there were four kinds of people on Formosa — the fatalistic, the reckless who were willing to defect to the Communists, those who hoped for a miracle, — and those who were willing to revolt. What is needed, he said, is true Chinese nationalism with an ideal antithetical to that being foisted upon the Chinese on the Mainland by the Communists. A humanism akin to Christianity might be such an ideal. Without it, Formosa was done for, regardless of the volume of US aid. Formosa is not an end in itself, but a bridge to China, he said, and a symbol of hope and liberation. Yet it cannot be this so long as the Generalissimo remains the chief of state. And Chen Cheng, the Premier, he said, provides leadership no different from that of the Generalissimo, and perhaps worse. The army was useless as a combat force without a strong economy to support it and this could not be achieved without basic political reforms. Were these to be carried through, General Sun said, the following changes in the military organization would have to be instituted: A streamlining of the whole Ministry of Defense superstructure and particularly the Combined Service Forces, action on the some 1700 surplus generals and the 30,000 surplus officers, elimination of the present political

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commissar system, and basic reform of the Peace Preservation Corps. Even if the retirement of surplus generals and officers resulted in a costly financial obligation to pay pensions, this would in the long run be an economy and is essential to the efficient operation of the army. General [redacted] felt that a bold and courageous leadership (which few, if any, believed [redacted] himself quite possesses) committed to accomplish all of these objectives would have the support of 80% or more of the responsible mainlanders on Formosa. Such a leader would have to have foreign help. B1
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[redacted] and General [redacted] expressed individual variants of a view which is held by other progressive elements within the Chinese Government on Formosa, including such persons as [redacted] B1
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[redacted] A figure in this group who appeared to me to possess promising qualities of moral and intellectual leadership was [redacted] who holds the inconspicuous and comparatively unimportant position of Governor of the Central Bank of China. He speaks rarely, but always with weight and authority, has the ear of the Generalissimo, and is regarded by his colleagues as kind of senior statesman.

The hope of making Formosa a constructive and dynamic factor in Far Eastern politics depends upon giving this group of men -- who, unfortunately, still have some of the characteristics of a kind of super-bureaucracy -- and the very large and impressive aggregation of technicians, engineers, professional men, and managers associated with them an opportunity to work out procedures and programs for good government and sound economics.

This cannot happen so long as the Generalissimo preserves the Chinese military establishment as a personal garrison, supporting itself by whatever arbitrary devices it can get away with in exploiting the human and natural resources on Formosa. Minister Rankin, General Chase, and Mr. Moyer have requested and obtained from Washington authority to work out with the Generalissimo arrangements whereby the MAAG will exercise authority in preparing jointly with the Ministry of National Defense all military budgets and supervising all military expenditures, whether out of US aid or local resources. The Generalissimo has not as yet agreed to such arrangements. If he does, General Chase's hand will be strengthened greatly in dealing with the three key problems of the Combined Service Forces, the political commissar system, and the streamlining of the army itself.

The Combined Service Forces are an anachronism. The organization was established on the Mainland at the suggestion of General Lucas and on the Mainland it may have had a useful function. On Formosa, it is a military-bureaucratic colossus which hoards China's present stockpiles of military supply.

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It is the home base for the uselessly subsidized military and semi-military supernumeraries. It directs military raids upon the agricultural and industrial economy. While the Chinese Air Force and Navy operate largely independent supply systems the Combined Services Forces hamstring General Sun Li-jen's best efforts to obtain minimum requirements for the troops themselves. It is headed up by two General Huangs who are little more than instruments of the Generalissimo's personal whims and wishes as communicated to them by the Chief of Staff, General Chou Chih-jou. US military hardware cannot move into this morass of politics and privilege without running extreme risks of misuse, waste, and corruption.

The political commissar system, at present, is the creature of General Chiang Ching-kuo, the Generalissimo's son and Director of the Political Department of the Ministry of National Defense. Formosa does not have a unitary secret police system; it comprises the political commissars in the army, Chiang Ching-kuo agents other than the commissars, the Peace Preservation Corps of General Peng Meng-chi, the agents of the Ministry of Interior, the Generalissimo's own bodyguards, etc., etc. . . Chiang Ching-kuo, as Chairman of the Kuomintang Reform Committee, has reduced the size of the Central Committee of the Party from 233 to 20 and through this sensitive point exercises considerable indirect and semi-police influence. General Chase has not set for himself the goal of reforming Formosa. However, the secret police, counter intelligence, informer, and commissar activities in the army constitute -- according to both General Sun Li-jen and General Chase -- an almost insuperable barrier to the achievement of good military discipline, high morale, and effective combat potential.

To streamline a military establishment requires, of course, some knowledge of its size and organization. One is impressed on Formosa by the lack of good statistical information on its actual size. I heard estimates ranging from 350,000 to 800,000. General Chase has set for himself the target of training and equipping 600,000 -- and no more. It should be mentioned, parenthetically, that Colonel Hector, Chief of the Air Section of MAAG, has been very well impressed by the success of the Chinese Air Force in preserving its organization, maintaining its records, and carrying out training operations. Its records are exact and complete. Its commissions are well earned. There are only 13 generals in the Air Force as a whole. He believes that the Air Force could achieve peak combat efficiency in six to seven weeks after the arrival of fighter aircraft and within eight weeks after the arrival of light bombers. The story of the army is very different. The MAAG has persuaded the Ministry of National Defense to reduce from 12 to 10 the number of Chinese armies and from 38 to 21 the number of Chinese divisions. This contraction of organization strength will result in the elimination of "paper" units and bring to full strength units actually to be carried on the books. This organizational reform is already taking place. The organizational reform, however, is, in General Chase's opinion, merely a prerequisite of a reform in military thinking. The Chinese Communist army fighting in Korea is an excellent infantry army. The Chinese forces on Formosa

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can deal with them only by learning to employ the tactics developed by the United Nations Forces in Korea. In short, the Chinese must learn the meaning of the word "teamwork", must master a wide range of weapons besides the rifle, and must learn to use them together. General Chase estimates that after arrival of US hardware a training program of eight months will be needed to achieve the results he desires. The Chinese common soldier, as I was able to see him myself on Formosa, looked good. I have been seeing Chinese armies all my life and most recently in West China during World War II. The troops I saw on Formosa looked healthier, were better clothed, were furnished with more rifles, were quicker in their response to discipline, and generally more alert than any large number of Chinese troops I have ever seen before. I talked with General Sun's two attractive and intelligent young aides, and also to a number of Chinese officers, including five or six generals of no political consequence, but bearing important operational responsibilities. They struck me as being highly competent in their fields of responsibility. Although my impression is admittedly based on superficial evidence, I am convinced that General Chase has good human material with which to work. I am unable to evaluate the disturbing view expressed to me by Colonel Barrett and Major Jack Young, who has recently been in command of a combat unit in Korea, that perhaps General Chase's most serious problem is to create and preserve combat capabilities in an army which is growing older month by month, is not being replenished by new bodies from or retiring old ones into society, and which, without "bleeding" might well become so overtrained as to be incapable of fighting.

The military establishment, some characteristics and aspects of which I have just mentioned, is the principal impediment to the accomplishment on Formosa of constructive developments in the political and economic field. If General Chase can bring about the military reforms he desires, particularly in the fiscal and supply fields, there are on Formosa, in my opinion, resources which will make possible the achievement of good government and a healthy economy capable of meeting the welfare requirements of an especially talented population.

One needs to see it to be fully aware of the high quality of Formosan agriculture. The Formosan farmer population is more literate than any in Asia except possibly that in Japan. Under Japanese tutelage it has developed very advanced farming techniques. Farm production is highly diversified and includes two cash crops, rice and sugar, which figure prominently in earning Formosa's foreign exchange. Rice production now exceeds pre-liberation levels, although exports lag. The Formosan farm population is by and large well off. Nowhere did I hear that Communism had made the slightest headway in the rural sector of the Island. The Formosan farmer and his farm associations, however, draw comparisons between Japanese and the present Chinese administration which are favorable to the Japanese. In retrospect, they feel that the one flaw in Japanese policy on Formosa as it affected them was that the Japanese regarded them as second class citizens; this the Chinese from the Mainland have avoided doing. However, the Chinese National Government's tax, credit, and pricing

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I saw for myself, and more than that heard glowing accounts from others who had seen far more than I, the accomplishments of the Chinese in the industrial sphere. Since 1945, Formosa's cotton textile spindleage has risen from 10,000 to 80,000. Formosa's power production has risen from a Japanese peak of 152,000 kilowatt hours to 200,000. Production of nitrogenous fertilizers has risen from 11,000 to 76,000 tons. Similar indications of industrial recovery could be given for the cement industry, mining industries, and so on. I saw three efficient textile plants, a fertilizer plant, and the aluminum plant.

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Mr. Wang said -- and this was confirmed by what I was able to learn in Hong Kong -- that there is a large volume of Chinese capital in Hong Kong and Southeast Asia which would welcome opportunities to invest in Formosa if the difficulties here mentioned could in some way be reduced or eliminated. It is my impression -- and this is an impression which may not be capable of demonstration -- that with stabilization in the value of the currency, and this alone, the contributions of Chinese capital for development purposes, both from Formosa itself and from Hong Kong and Southeast Asia, might exceed within the next twelve to fifteen months by as much as three or four times the contributions which ECA could make.

The US Government is fortunate in having on Formosa, available for use by the Chinese official and private business community, the J. G. White Engineering Corporation. Mr. Val de Beausset has gained an enviable position of respect amongst able Chinese economists, engineers, and industrial operators. There is no shortage on Formosa of engineers, technicians, plant managers, and the potential for rapid industrial development on Formosa is very great. Mr. de Beausset believes that with a modest investment of US-financed industrial equipment Formosa has the capability of producing on Formosa items now being imported and producing exportable commodities in a volume which, within two to three years, would render the Island self-supporting -- including the maintenance of the military establishment which would have been brought into being by US assistance at that time. This is admittedly an optimistic forecast. If progress is to be made in the direction Mr. de Beausset has been outlining for the Chinese there must first be basic reforms in the fiscal administration of the Island and the establishment of an atmosphere of political and economic self-confidence.

Responsible Chinese on Formosa can be divided crudely into those who are "hell bent" for return to the Mainland, no matter how, and to hell with Formosa" and those who feel that "we have got to succeed on Formosa or there is not much point in going back to the Mainland". As one Chinese in the latter group said to me, "China's present purpose on Formosa should be to run a country which would make the Chinese on the Mainland say, 'I wish I were there'."

The Generalissimo and his entourage belong to, and in fact lead, the former group. I got an insight into some blank spots in their mental processes, I think, when, during a lunch with Madame Chiang Kai-shek, she stated without caveat or explanation that the Chinese National Government would be back in Peking next year. It was a simple statement of faith. I was interested, too, to have her say that she and the Generalissimo were making energetic efforts to persuade Mr. H. H. Kung to return to Formosa, presumably to resume his responsibility as Minister of Finance. She spoke in the most glowing terms of his great genius in running the Ministry of Finance throughout the Japanese war. She seemed to have no feeling whatever of what impression would be produced upon Chinese and American opinion by an announcement of his return to Formosa as a high authority in the Chinese Government.

No Chinese with whom I talked, except those who without explanation expected that World War III would miraculously restore the Kuomintang to Peking,

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appeared

appeared to think that the reconquest of the China mainland can be accomplished by military pressure alone. Soon after my arrival in Formosa I tried to find evidence that the Chinese were attempting to work out an ideological appeal of some sort to the Chinese on the mainland, sick of and terrified by Communist police authority.

I brought this question up at a dinner which Dr. Chiang Mon-lin arranged for me with Mr. Hollington Tong, and Mr. K. Y. Yin. Mr. Hollington Tong is the Chief of the Generalissimo's propaganda and publicity services. Mr. K. Y. Yin is the head of the Central Trust. In order to put my question in a historical context, I referred to the fact that there appeared to be in Chinese history since about 150 B. C. two theories of Government. One was the political theory of the Chinese legalists who perfected a doctrine for an authoritarian police state. The other was the Confucianist theory upon which most Chinese dynasties based their political institutions -- a theory of federalism under the general sovereign guidance of a benevolent emperor. I asked if they felt that the Chinese Communists belonged to this Chinese legalistic tradition or whether Chinese Communism was a completely foreign importation. All agreed that the Chinese Communist regime was allied to Russia, was dependent upon the USSR for support, and had borrowed a part of its vocabulary from Marxist-Leninist-Stalinist political writings. Notwithstanding this fact, however, Dr. Chiang Mon-lin regarded the Chinese Communist movement as essentially Chinese. Mr. Hollington Tong dissented and considers it foreign. Mr. Yin was asked to cast his vote and he associated himself with the view of Dr. Chiang.

I see some significance in this conversation beyond that on the surface. It seems to me of the utmost importance to recognize that expression of such disagreements in opinion could not be found anywhere in Communist China, particularly where a foreigner was present. If there are characteristics of a police state on Formosa, those characteristics are certainly a mild version of what is found where the Communists have established themselves.

When I inquired what ideology, perhaps based upon the Chinese tradition, might serve as an alternative to Communist ideology, Mr. Hollington Tong immediately replied that it was the San Min Chu I (the Three Peoples' Principles of Dr. Sun Yat-sen -- nationalism, peoples' livelihood, and the peoples' democracy). Dr. Chiang Mon-lin and Mr. Yin felt that the San Min Chu I had no dynamic appeal whatever to the Chinese people and something else -- they knew not what -- was called for.

I talked at a later time with Mr. Chu Chia-hua, an intimate friend of the Generalissimo and formerly a general secretary of the Kuomintang, on this subject. He said that the San Min Chu I was hopeless as an instrument of political or psychological appeal to the Chinese people. The Chinese are fed up with the Russians and they would understand the principle of nationalism. That, he said,

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however, was not enough. What to add to it, he did not know.

On the night prior to my departure from Taipei Mr. Yen, Minister of Finance, invited me to a dinner in his home at which the other guests included J. K. Yui, H. C. Jen, General Kiang of the Ministry of National Defense, Mr. Chien, Minister of Economic Affairs, and Mr. Martin T'ong of the Chinese Committee on US Aid. I raised again the question of usefulness of the San Min Chu I as a theoretical and philosophical alternative to Chinese Communist doctrine. Without dissent, they all agreed that it was out-dated and that there was nothing to take its place. To keep the discussion going, I threw out the suggestion that a new San Min Chu I might be formulated in the following terms:

(1) "Horizontalism instead of verticalism", (2) "Benevolent Pao Chia-ism", (3) "Retain rice and clothing according to individual effort". These, I suggested, were slogans simple to comprehend in Chinese terms and yet capable of infinite theoretical elaboration.

Horizontalism would, of course, be the antithesis of the central authority which is exercised through a vertical chain of command by the Chinese Communist Party.

Benevolent Pao Chia-ism would imply and require a shift of responsibility for social action and discipline from external police authority, which probes into the entrails of every family, to groups which at the grass root level would be responsible to and for each other.

Retain rice and clothing according to individual effort would be the antithesis to the Communist subordination of the agricultural and industrial life of the country, regardless of individual hardship or interest, to the demands of the Party, the army, and the bureaucracy.

In a sense these slogans describe traditional Chinese society. The group with whom I talked, while unanimously acknowledging the need for some philosophical alternative to the Communists were understandably reticent about commenting on the slogans which I had thrown out for their comment. On reflection, it seemed to me easy to understand why.

Traditional Chinese society has been incapable historically of accumulating capital resources which are essential for the operation of a modern industrial state. A democratic -- or a traditional -- alternative to Communist theories of social organization offers little or no promise for the rapid development of China along modern industrial lines. The intellectual dilemma of Chinese leadership on Formosa appears to flow from the fact that they know that if they return to the Mainland to throw off the pro-Russian bias of the Peking regime they might well be compelled to preserve most of the centralism and authoritarianism of the Chinese Communists, unless they could rely upon a massive commitment of US resources for the feeding of the Chinese population, for the support of the Government, and for the development of China's industry. This is something upon

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which they obviously could not rely.

If this diagnosis is correct it contains certain implications for the objectives we should seek in Formosa and for our expectations.

We should not expect Formosa, however well administered, to become a prototype for mainland China. Formosa is potentially a surplus economy, perhaps even with its present military establishment. China is almost certain to be a deficit economy at least for the next quarter century.

What should be sought in Formosa is a society led by Chinese who, with our help and in Formosa's favorable economic environment, can come to be regarded as successful Chinese leaders. If that leadership can remain in fact Chinese and look Chinese and be persuaded that our purpose on Formosa is to help them achieve Chinese solutions to their problems, that will offer a hope and an inspiration to the Chinese suffering Communist tyranny on the Mainland who will see in one province of China, free of Russian domination, successful Chinese leadership meeting the welfare needs of the people and preserving the important Chinese values of freedom of speech, thought, religion, and association.

For this to come about, the present leadership, policies, and programs of the military and police establishments must be purged of its evils. I came away from Formosa persuaded that General Chase is excellently qualified to perform this task and that there are better-than-even chances that he can do it.

I came away from Formosa also greatly impressed by the harmony of interest, purpose, and operations of the MAAG and the ECA missions under the tactfully handled guidance of Minister Rankin in the Embassy. The Chinese are not offered opportunities for pitting Americans against each other or engaging in wide end runs. The crux of the immediate problem for Washington, it seems to me, is to give to the MAAG all the cooperation it needs in acquiring competent personnel in the field of military finance, adequate personnel for checking operations of the Chinese military establishment, and such ECA assistance as will contribute the military and short-term economic objectives ECA has set for itself. Success in the short term may make possible institution by the Chinese, with the guidance which Mr. Moyer's ECA staff could competently provide, of a "Hodge Mission" type of economic recovery program in which there could be a gradual, but basic shift from commodity assistance to industrial development. It is wishful, however, to think in these promising terms -- possible economic self support for Formosa through industrial expansion -- unless the operations of the military establishment in the economic sphere are brought under the effective control of the MAAG in the very near future.

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